



Benefits Older Pennsylvanians.
Every Day.

Pennsylvania Lottery Profit Report

As Required by Act 201 of 2014

2022

The Pennsylvania Lottery remains the only state lottery that designates all its proceeds to programs that benefit older residents. Since its inception in 1971 through June 30, 2022, the Pennsylvania Lottery had contributed over \$33.8 billion to senior programs that include property tax and rent rebates; free and reduced-fare transit; the low-cost prescription drug programs PACE and PACENET; care services; and the 52 Area Agencies on Aging, including full- and part-time senior centers throughout the state.

By law (Act 97 of 2019), the Pennsylvania Lottery is currently required to return 20 percent in net profits for programs that benefit older Pennsylvanians. Using the reduction of the minimum rate of return, the Lottery can execute a diverse product portfolio to maximize profits for senior programs. As the mandated rate of return has dropped, Lottery sales and profits have increased.

Act 53 of 2008 granted the Pennsylvania Lottery temporary relief from the mandated 30 percent minimum return that had been in place since the Lottery's inception. The Lottery was given the latitude to return a minimum of 27 percent through fiscal year 2010-11. Act 23 of 2011 extended the 27 percent minimum return through fiscal year 2014-15. Act 201 of 2014 set the minimum return percentage at 25 percent starting with fiscal year 2014-15. Act 97 of 2019 set the minimum return percentage at 20 percent starting with fiscal year 2019 and continuing through June 30, 2024. (Note: Per Act 47 of 2018, iLottery is excluded from the profit margin requirement.)

Because the lottery game development process can in some cases take up to a year, it is important for the Lottery to have some level of certainty regarding the minimum return percentage requirement. Increasing player demand for higher payout (i.e. lower profit margin) games will require extending, or preferably eliminating, the minimum profit margin requirement that expires in June 2024. Without it, and the flexibility to offer the games Lottery players want, the Lottery will be forced to rein in payouts, which will have a negative impact on sales and profits.

This annual profit report is required by Act 201 of 2014. This profit report includes analysis of fiscal year 2021-22 and a look ahead to 2022-23.

FISCAL YEAR 2021-22 ANALYSIS

In fiscal year 2021-22, the Lottery recorded its second-best sales and second-best profit year in its 50-year history. The 2021-22 fiscal year followed the all-time record fiscal year of 2020-21, when an extraordinary 20 percent growth rate greatly eclipsed the Lottery's projections. Last year, the Lottery acknowledged that factors related to the COVID-19 pandemic likely played a significant role in the record-breaking sales and profit growth in fiscal year 2020-21. As a result, the Lottery projected negative year-over-year sales and profit growth for fiscal year 2021-22. That projection was realized, in that the Lottery saw a traditional sales decline of 5.5 percent and an overall profit decline of 8.25 percent.

For fiscal year 2021-22, the over \$5.0 billion (\$5,008,765,795) in traditional sales resulted in a decrease of \$293.7 million, or -5.54 percent, compared to the prior fiscal year.

For the 11th consecutive year, the Lottery recorded profits exceeding \$1 billion. Fiscal year 2021-22 net profits of \$1,195,151,930 were the second highest in the Lottery's 50-year history, surpassed only by the record profits of fiscal year 2020-21. Total net revenues decreased by \$107.5 million, or -8.25 percent, compared to the prior fiscal year.

The Lottery paid out \$3.37 billion in traditional prizes, meaning 67.3 cents of every Lottery sales dollar went back to players. A total of 76 winning tickets of \$1 million or more were paid to players during the fiscal year. More than \$655 million in prizes were paid out to winners on online Lottery games. More than 10,000 licensed Lottery retailers statewide earned an estimated \$259.9 million in regular commissions and over \$26.5 million in additional retailer incentives for a total of \$286.4 million in total sales and bonus commissions, which equates to 5.72 percent commission on traditional sales.

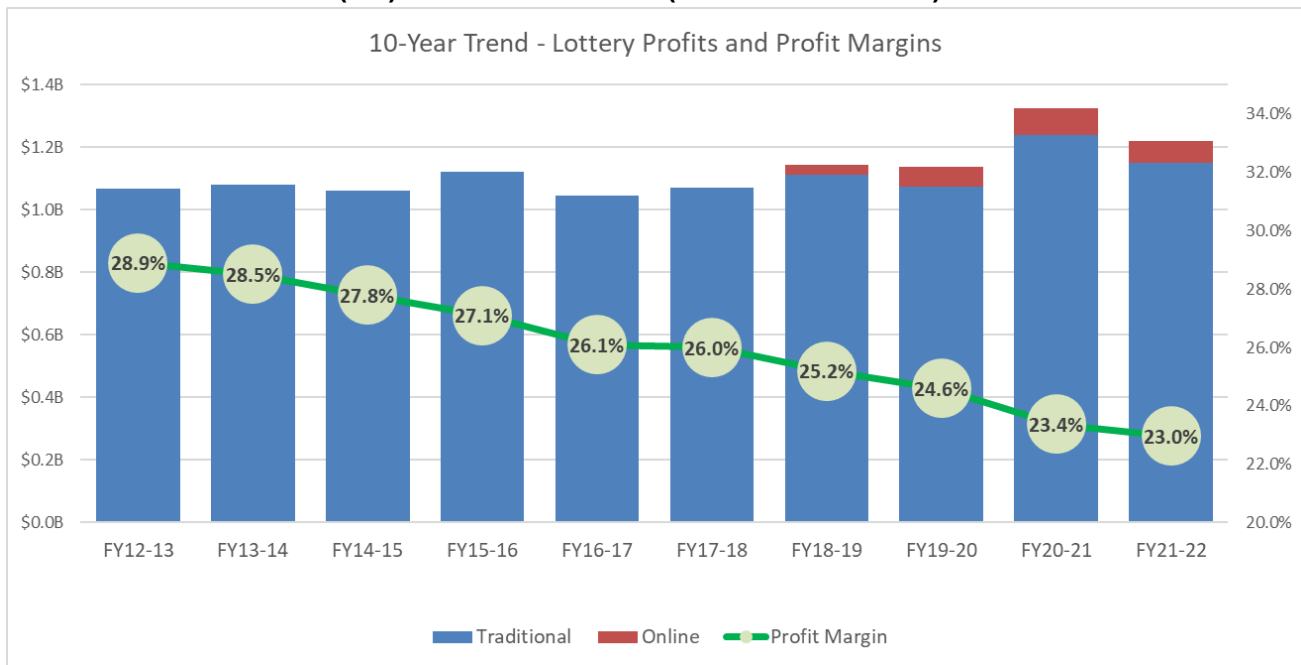
Operating costs remained one of the lowest in the country at 2.15 percent of traditional ticket sales.

The Pennsylvania Lottery remains one of the best-performing lotteries of the 45 U.S. lotteries, ranking 5th in population, 7th in traditional ticket sales, and 7th in profits in fiscal year 2020-21, after removing Video Lottery Terminals (VLT) profits from Maryland and Ohio. The PA Lottery once again was a highly ranked performer in the industry in per capita Scratch-Off sales, ranking 6th in the U.S.

LOTTERY PROFIT MARGIN IN FISCAL YEAR 2021-22

The Lottery ended fiscal year 2021-22 with a net traditional profit margin of 22.97 percent, down from the 23.39 percent recorded in fiscal year 2020-21. Over the last two years, the Lottery has recorded its top two sales and profits years while recording the two lowest profit margins in its 50-year history.

PA LOTTERY PROFITS (\$B) AND % RETURN (PROFIT MARGIN) FY 2012-13 to FY 2021-22



Note: The Total Net Revenue as reported on the comparative financial statements is made up of the Net Traditional Revenue, Net Gaming Revenue, and the Retail Incentive Program expense. The profit margin requirement pertains only to the Net Traditional Revenue.

Pennsylvania ranks 6th in population and 7th in profit (after subtracting VLT profits in Maryland and Ohio). It should also be noted that none of the states ranked above Pennsylvania in profit have a profit margin mandate.

Net Income Ranking	State Lottery	Profit % Mandate?
1	New York	No
2	Florida	No
3	Texas	No
4	California	No
5	Georgia	No
6	Michigan	No
7	Pennsylvania	YES

Pennsylvania is one of only seven states to have a profit percentage requirement: Delaware, Louisiana, New Jersey, New Mexico, Rhode Island and Tennessee.

STATE OF THE LOTTERY GAME PORTFOLIO IN FISCAL YEAR 2021-22

The Pennsylvania Lottery maintains a diverse product portfolio, providing lottery games that meet an equally diverse consumer population. The Lottery’s portfolio includes games in each of the categories shown in the table below.

PA Lottery	Lottery Game Categories
✓	Scratch-Offs
✓	Multi-state Lotto (Powerball)
✓	Multi-state Lotto (Mega Millions)
✓	Multi-state Lotto (Cash 4 Life)
✓	In-State Lotto
✓	2-Digit Numbers
✓	3-Digit Numbers
✓	4-Digit Numbers
✓	5-Digit Numbers
✓	Raffle (Millionaire Raffle)
✓	Fast Play
✓	Monitor Games (Keno)
✓	Monitor Games (Xpress Sports)
✓	Online eInstants
✓	Online Draw

Scratch-Offs

Sales of Scratch-Off games totaled more than \$3.5 billion, down \$244.5 million, or 6.5 percent, from the previous year. These games account for more than 70 percent of total traditional sales.

The sale of \$10, \$20, and \$30 price points were down a combined \$275.0 million or -11.3 percent. Most of that deficit was made up by the \$261.7 million in sales coming from the new \$50 price point launched in week 26. The \$5 price point was down \$163.7 million or -17.2 percent. The \$1, \$2 and \$3 price points were down a combined \$67.4 million or -18.6 percent. The Scratch-Off sales mix continues to shift toward the higher price point (i.e. higher payout) games. Higher price point Scratch-Off tickets have a lower profit margin; however, because of their high sales volume, they generate more profit dollars.

The following table shows the sales migration toward the higher price point games over the last 10 fiscal years. As a result, the average selling price has increased over the previous in every fiscal year. The first \$50 price point Scratch-Off game was introduced in fiscal year 2021-22. The price point generated \$261.7 million in sales and accounted for 7.4 percent of all Scratch-Off sales.

Scratch-Offs - Percentage of Sales by Price Points

FY	\$1	\$2	\$3	\$5	\$10	\$20	\$30	\$50	Avg. Selling Price
FY.1213	5.0%	9.8%	7.0%	30.6%	19.3%	28.3%			\$4.59
FY.1314	4.5%	8.7%	7.0%	29.8%	19.7%	25.9%	4.5%		\$4.87
FY.1415	4.1%	7.5%	6.3%	30.5%	20.0%	24.7%	6.8%		\$5.12
FY.1516	3.9%	7.2%	5.7%	32.6%	21.1%	22.1%	7.4%		\$5.15
FY.1617	3.6%	6.4%	5.4%	31.9%	20.6%	23.2%	8.9%		\$5.41
FY.1718	3.4%	5.8%	5.3%	31.0%	20.8%	22.8%	10.9%		\$5.61
FY.1819	3.1%	5.4%	4.9%	29.7%	21.9%	22.9%	12.2%		\$5.85
FY.1920	2.3%	4.6%	4.6%	29.1%	23.1%	23.4%	13.0%		\$6.30
FY.2021	1.8%	3.9%	3.9%	25.3%	25.9%	24.4%	14.7%		\$6.92
FY.2122	1.6%	3.4%	3.3%	22.4%	24.7%	23.3%	13.7%	7.4%	\$7.67

The trend toward higher price point games has continued to boost the average Scratch-Off selling price every year over the last 10 years. The average selling price has grown from \$4.59 in fiscal year 2012-13 to \$7.67 in fiscal year 2021-22.

Multi-State Lotto: Powerball®, Mega Millions® and Cash4Life®

Powerball® sales increased by \$72.4 million or 37.1 percent. Mega Millions® decreased by \$67.3 million or -37.7 percent. The table below shows that average jackpots and maximum jackpots improved over the previous year for both games. Comparing fiscal year 2021-22 jackpots against the previous year makes it clear why Powerball® sales increased and Mega Millions® sales decreased. Another important factor that contributed to an improvement in Powerball sales was the change from two drawings to three drawings per week. That change took place on August 23, 2021.

Powerball Jackpots by Fiscal Year

FY	Average Jackpot	Max Jackpot
FY.1213	\$120M	\$600M
FY.1314	\$118M	\$425M
FY.1415	\$103M	\$500M
FY.1516	\$166M	\$1500M
FY.1617	\$159M	\$478M
FY.1718	\$174M	\$700M
FY.1819	\$203M	\$750M
FY.1920	\$106M	\$394M
FY.2021	\$144M	\$730M
FY.2122	\$216M	\$432M

Mega Millions Jackpots by Fiscal Year

FY	Average Jackpot	Max Jackpot
FY.1213	\$43M	\$190M
FY.1314	\$98M	\$636M
FY.1415	\$94M	\$321M
FY.1516	\$101M	\$390M
FY.1617	\$77M	\$540M
FY.1718	\$147M	\$521M
FY.1819	\$219M	\$1600M
FY.1920	\$142M	\$410M
FY.2021	\$167M	\$1000M
FY.2122	\$149M	\$670M

Cash4Life® sales were down \$2.9 million or -10.0 percent in fiscal year 2021-22.

The multi-state game category accounted for \$405.6 million, an increase of \$2.2 million, or 0.6 percent, over previous fiscal year. The category accounted for 5.7 percent of total traditional sales in fiscal year 2021-22.

In-State Lotto: Cash 5, Match 6 Lotto and Treasure Hunt

On March 23, 2020, the Lottery revamped Cash 5, its longest-running jackpot game. The game is now a hybrid game with two components: a rolling jackpot feature, as well as a new instant-win feature called Quick Cash. Long trending, declining Cash 5 sales required a change that would support the jackpots that Cash 5 players have come to expect. Cash 5 with Quick Cash sales were up \$19.3 million or 20.6 percent.

Match 6 Lotto sales were down \$30.7 million or -21.0 percent. Treasure Hunt sales were up \$2.3 million or 7.2 percent.

The in-state lotto game category accounted for \$263.3 million, or 5.2 percent, of total traditional sales in fiscal year 2021-22. Overall, the in-state lotto game category was down \$9.1 million.

PICK Games: PICK 2, PICK 3, PICK 4, PICK 5 and Wild Ball

PICK games ended fiscal year 2021-22 down \$42.0 million, or -6.2 percent. PICK games accounted for \$639.3 million, or 12.7 percent, of total traditional sales in fiscal year 2021-22. Wild Ball accounted for \$46.4 million of total PICK sales.

Millionaire Raffle

The Lottery sold all of the 500,000 tickets available for the New Year's Eve Millionaire Raffle #31. Sales were aided by eight weekly drawings in which two prizes of \$50,000 were awarded each week.

Fast Play

Sales of Fast Play games totaled over \$149.1 million in fiscal year 2021-22. This was an increase of \$5.2 million, or 3.6 percent, over fiscal 2020-21. The \$30 price point was added in fiscal year 2020-21. The \$30 price point was up \$7.7 million, or 80.3 percent, in fiscal year 2021-22.

Fast Play accounted for 2.2 percent of total traditional sales in fiscal year 2021-22.

Monitor Games (Keno and Xpress Sports)

The Lottery began selling Keno on May 7, 2018. In 2021-22, Keno sales generated over \$41.2 million, down \$0.4 million, or -1.0 percent, over fiscal year 2020-21.

Xpress Sports, including football and car racing themed drawings, launched in August 2018. The Lottery replaced the football-themed game with horseracing in November 2019. Xpress Sports games added \$14.5 million in sales for fiscal year 2021-22, up \$1.2 million, or 0.8 percent, over fiscal year 2020-21.

Monitor games in total contributed \$55.7 million in fiscal year 2021-22, up \$0.8 million or 1.5 percent. They accounted for 1.1 percent of the traditional game portfolio.

iLottery

Fiscal year 2021-22 was the fourth full year of iLottery sales. In fiscal year 2021-22, iLottery generated \$746.6 million in eInstant play which was down \$140.4 million, or -15.8 percent, than the previous year. Online eDraw game sales added \$27.8 million, which was \$6.4 million, or 29.8 percent, more than the previous year. In total, iLottery added \$71.0 million in profit, which was down \$13.7 million, or -16.1 percent less than the prior fiscal year.

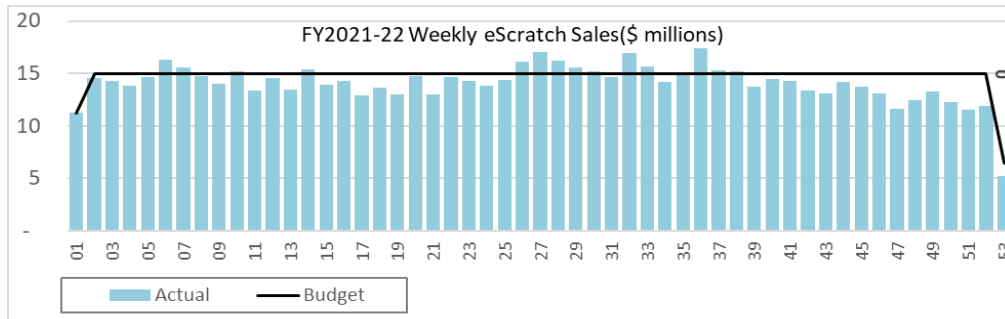
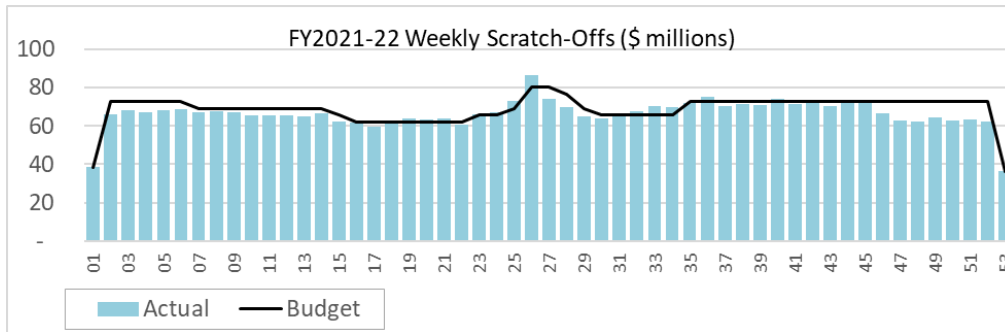
The Lottery continues to expand the Draw games available for online purchase, which now includes Powerball®, Mega Millions®, Cash4Life® and Treasure Hunt. Match 6 and all PICK games were added in fiscal year 2021-22. The Lottery plans to add Keno, Derby Cash, and Cash 5, as well as subscription play and electronic playslips, in the future.

FISCAL YEAR 2022-23 AND BEYOND

The PA Lottery is estimating fiscal year 2022-23 traditional sales of \$4.88 billion, a decrease of \$126.0 million or -2.5 percent. The Lottery is projecting eInstant sales of \$732.2 million, a decrease of \$14.3 million, or -1.92 percent, and online eDraw sales of \$33.5 million, an increase of \$5.7 million or 20.6 percent.

Fiscal year 2022-23 profits from traditional games (i.e. excluding online sales) are projected to be \$1.148 billion, a decrease of \$3.0 million or -0.26 percent. Combined profits are projected to reach \$1.190 billion, a decrease of \$5.6 million or -0.47 percent, with a projected profit margin of 22.5 percent.

The Lottery is projecting a decline in sales based on weekly sales trending over the last quarter of fiscal year 2021-22. Fiscal year-to-date sales were trending very close to the budget estimate up until week 46, as shown in the graph below. The subsequent fall-off in Scratch-Off sales signaled a likely slow start to fiscal year 2022-23. As a result, the Lottery forecasts a decline in fiscal year 2022-23 sales and profits. The fall-off in online eScratch happened earlier in the fiscal year, around week 39, as shown in the second graph below. As of week 10 of fiscal year 2022-23, Scratch-Off sales are 3.9% lower than the same period last fiscal year.



To meet its commitment in fiscal year 2022-23 and beyond, the PA Lottery has set the following growth strategies:

- Continuing to aggressively manage its product portfolio. This includes:
 - Expanding the portfolio of Draw games available for online purchase.
 - Evaluating prize structures and other product features of its entire game portfolio.
 - Adding play value to products and increasing player engagement through second-chance drawings, promotions, interactive elements and cross product category promotions.
- Expanding points of distribution. This includes:
 - Recruiting quality retailers, especially locations optimal for monitor games.
 - Expanding the Lottery’s partnership with key corporate chains that have the potential to add hundreds more selling locations.
- Continuing to optimize the Lottery’s presence at retail. This includes:
 - Increasing game displays, signage, branding and promotional elements through the Retail Incentive Program, established by Act 42 of 2017.
- Finally, measuring product performance and marketing effectiveness to optimize Lottery sales and profits, and identify new opportunities for growth.

The PA Lottery also continues to face increased competition, in both legal as well as illegal forms, such as Games of Skill. Because of their proliferation and local presence, Games of Skill are a significant threat to the Lottery and the vital senior programs that it funds. According to Lottery’s analysis, as of June 2022, the known count of Games of Skill machines is over 13,000. There is at least one skill machine in one out of every 3.4 Lottery retailers throughout the state. The Lottery estimates that Games of Skill have cost the Lottery \$650 million, or 4.4 percent, in lost Scratch-off sales between October 2017 and March 2022. Additionally, Games of Skill continue to hamper the Lottery’s ability to grow the number of Lottery retail outlets offering monitor games, Keno and Xpress Sports.

PROFIT MARGIN RELIEF

A lower Lottery margin rate of return will provide more profit dollars and therefore more money for senior programs.

Act 97 of 2019 set the minimum return percentage at 20 percent starting with fiscal year 2019 and continuing through June 30, 2024. After which the profit mandate would return to 25 percent. The Lottery's margin rate projection for Fiscal Year 2022-23 is 22.5% and it could potentially fall below 20% in 2025-2026.

Increasing player demand for higher payout (i.e. lower profit margin) games will require extending, or preferably eliminating, the minimum profit margin requirement that expires in 2024. Without it, and the flexibility to offer the games Lottery players want, the Lottery will be forced to rein in payouts, which will have a negative impact on sales and profits.

If the Lottery is required to return to a 25 percent profit mandate beginning in 2024-25, the Lottery would have to eliminate sales of higher payout Scratch-Off games, such as the \$50 and \$30 Scratch-Offs, as well as cut back on quantities of \$20 Scratch-Offs.

The Lottery estimates that over the four years beginning in fiscal year 2024-25, returning to the 25 percent mandate could cost as much as \$8.229 billion in lost ticket sales and \$760 million in lost profit.

Fiscal Year	Sales Estimate - No Margin Relief	Sales Estimate - Margin Relief	Reduction in Sales - if no relief	Reduction in Profits - if no relief
FY 2022-23	\$4882.8 M	\$4882.8 M	\$0.0 M	\$0.0 M
FY 2023-24	\$5185.6 M	\$5185.6 M	\$0.0 M	\$0.0 M
mandate relief expires FY 2024-25	\$3668.1 M	\$5393.0 M	-\$1724.9 M	-\$208.8 M
FY 2025-26	\$3668.1 M	\$5608.7 M	-\$1940.6 M	-\$198.1 M
FY 2026-27	\$3668.1 M	\$5833.1 M	-\$2165.0 M	-\$184.6 M
FY 2027-28	\$3668.1 M	\$6066.4 M	-\$2398.3 M	-\$168.3 M
4 Year Totals	\$14672.4 M	\$22901.2 M	-\$8228.8 M	-\$759.8 M

The Lottery estimates that if the profit margin were eliminated, it could generate an incremental \$1.38 billion in profit over 10 years.